

Pennar Industries Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	496.36 (Enhanced from 485.40)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	671.00 (Reduced from 683.50)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	1,167.36 (Rs. One Thousand One Hundred Sixty- Seven Crore and Thirty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Pennar Industries Limited (PIL) continue to draw strength from experienced promoter group and management team, long track record of operations, wide product range with presence across diversified business segments and growing geographic expansion, reputed and diversified client base with healthy order book and improved performance in 9MFY22 as compared to 9MFY21. The ratings are, however, constrained by deterioration in capital structure with persistent debt funded capex being undertaken by the company along with availing of GECL loans, moderated debt coverage indicators, risks associated with volatility in raw material price, capital intensive nature of business and competition from other players.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in PBILDT margin to more than 12% while steady growth in scale of operations, on a sustained basis
- Improvement in overall gearing ratio at less than 1x, going forward.
- Return on capital employed improving to 20% and above.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Increase in debt levels resulting in deterioration of capital structure marked with overall gearing of 1.25x and above.
- Elongation of operating cycle to 120 days and above.
- Any significant decline in TOI or profitability by more than 20% y-o-y.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter group with strong management team

The promoters of Pennar group have been in the engineered steel products business for more than four decades. The company is headed by Mr Nrupender Rao (Chairman) and Mr. Aditya Rao (Vice Chairman and MD), who have long presence in the industry. Furthermore, PIL is managed by a professional board comprising twelve directors with all the directors having long-standing industry experience of more than two decades.

Long track record of the group

Incorporated in 1975 as a cold rolled steel strips manufacturer, PIL has expanded its business profile with acquisition of related companies, setting up new plants, expansion of existing units and diversifying into value-added products in the engineering & infrastructure segment. Furthermore, the company continues to have notable presence in the pre-engineered business segment and water & environment infrastructure business. The company demonstrates engineering excellence and has a strong pedigree.

Diversified product range and revenue profile and growing geographic expansion

PIL has a diversified product portfolio having wide industrial use ranging from automobile, infrastructure, white goods, general engineering, domestic appliances, buildings solar and construction and railways. The revenue profile of PIL is diversified with contributions from four major business units viz. steel products, railways, tubes, and industrial components. The company has been gradually diversifying its revenue stream with a view to reduce concentration on the steel and railway vertical and has been consistently making investments in expansion of its product portfolio across different verticals like aerospace & defence, water treatment solutions etc. To better diversify its geographic presence, the company is consolidating its position in markets outside India as well.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Reputed and diversified client base with healthy order book position

PIL is an established player in the industry and the clientele comprises renowned names in the industrial and manufacturing industry from which the company has been garnering repeat orders. As the products are technical in nature, clients share related designs, and the products are manufactured to exclusively cater to their requirements. The clientele includes Ashok Leyland Ltd, Lloyds Insulation Limited, Integral Coach Factory (Perambur), Modern Coach Factory (Rae Bareli), L&T Construction, Hindustan Unilever Ltd, Emerson Climate Technologies Private Ltd, etc. among others. In February 2022, the Company filed with BSE that they have bagged orders worth Rs 647 crores across its various business verticals. The above orders have been received during the months of December 2021 and January 2022 and are expected to be executed within the next two quarters.

Improved performance in 9MFY22

The company on a consolidated basis has shown improved performance in 9MFY22 as compared to 9MFY21. Total income improved significantly from Rs. 978.23 for 9MFY21 crore to Rs. 1582.95 crore in 9MFY22. The Company registered a net profit of Rs. 25.29 crore in 9MFY22 as against net loss in 9MFY21.

Key Rating Weaknesses***Moderate financial performance during FY21***

On a consolidated basis, PIL witnessed moderation of income in FY21. Total revenue from operations declined from Rs. 2124.13 crore in FY21 to Rs. 1535.58 crore in FY22. This was primarily on account of lower demand in the market and manufacturing facilities of the company being suspended from March 23, 2020 till May 04, 2020 which impacted production. Accordingly, the PBILDT and PAT margins reduced to 6.81% and 0.18% respectively in FY21 from 10.10% and 2.51% respectively in FY20. However, the company's financial parameters have shown improvement from FY21 backed by improved performance in 9MFY22.

Moderation in the capital structure

Capital structure as represented by overall gearing of the company marginally deteriorated to 1.19x as on March 31, 2021 as compared to 1.04x as on March 31, 2020 due to rise in the total debt of the company and reduction in equity on account of share buyback. The company has availed guaranteed emergency credit line (GECL) from HDFC bank, ICICI bank and Yes bank amounting to Rs. 66.53 crore. The other debt coverage indicators viz. interest coverage and Total Debt/GCA witnessed decline from 2.57x and 8.06x respectively in FY20 to 1.31x and 17.02x respectively in FY21 at the back of reduced PBILDT and GCA levels during FY21 coupled with increase in the total debt and accordingly higher interest expense.

Risk associated with volatility in raw material prices

The raw material cost is the major cost component and accounted for 60-66% of the total cost of sales in the last four years ended FY21. The major raw material, hot rolled steel strips, accounts for about 55-60% of the total raw material consumption for the company, with balance 40-45% being other raw materials for down steel and specialty products. The company enters into monthly contracts, spot contracts and project specific contracts for raw material (hot rolled steel) procurement. The prices of hot rolled steel strips are volatile in nature resulting in susceptibility of profitability to adverse movement of input prices.

High competition from major players

The engineering segment is a highly competitive and low margin business with competition from large integrated steel manufacturers. However, the industry growth prospects are stable with significant railway budget announced, growth in renewable energy segment and improvement in the automobile industry.

Liquidity: Adequate

The liquidity position of the company is adequate. The gross cash accrual declined to Rs. 47.59 crore in FY21 from Rs. 88.26 crore in FY20. However, it may be noted that in 9MFY22, gross cash accrual improved significantly to Rs. 56.10 crore. Besides, the company has cash and cash equivalents of Rs. 44.32 crore as on March 31, 2021. Average working capital utilisation increased to 84% in last 12 months ending January 2022. The unutilised working capital limits provide headroom for any incremental working capital needs in the near term.

Analytical approach:

CARE Ratings Ltd in its analysis has considered the consolidated business and financial risk profiles of Pennar Industries Ltd. and its subsidiaries, together referred to as Pennar group, as the entity is linked through a parent-subsidiary relationship and collectively have management, business & financial linkages. Post completion of amalgamation, the business which was held in the two subsidiaries (Pennar Engineered Building Systems Limited & Pennar Enviro Limited) stand transferred in standalone PIL with appointed date of April 01, 2018 for the merger scheme.

Subsidiary

- Pennar Global INC (USA) (100%)
 - **Step down subsidiary:**
 - o Pennar Global Metals, LLC (USA) (August 12, 2020 – 100%)
 - o Ascent Buildings, LLC (USA) (September 04, 2020 – 100%)
- Enertech Pennar Defense and Engineering Systems Private Limited (51%)
- Pennar GmbH, Germany (December 04, 2019) (100%)
- One Works BIM Technologies Private Limited (February 2020) (100%)

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Methodology: Consolidation and Factoring Linkages in ratings](#)

About the Company

Pennar Industries Limited (PIL) incorporated in 1975 was promoted by Mr. Nrupendra Rao. With an annual production capacity of more than 3,50,000 MTPA, PIL is a multi-location, multi-product company manufacturing precision engineering products such as: Cold Rolled Steel Strips, Precision Tubes, Railway wagons / Coaches, Pre-Engineered Building Systems, Solar module mounting structures & Photo Voltaic panels, Sheet Metal Components, Hydraulic Cylinders, Road Safety Systems, Water & Sewage treatment solutions, Desalination projects etc. The company's products have significant presence in sectors like Infrastructure, Automobiles, Power, General Engineering, Building & Construction, Refineries, White Goods, Railways, Solar etc. PIL is particularly focused on the value-added engineered products segment and the business is divided into four major verticals; Steel Products (cold rolled steel strips, building products and formed sections), Systems and Projects (Railways and Solar module mounting systems (MMS) components), Industrial Components (general Engineering and Automotive components) and Tubes (Electric Resistant Welded, and Cold Drawn Tubes).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	2,114.98	1,525.94	1,582.95
PBILDT	212.88	101.29	130.51
PAT	52.51	0.89	25.19
Overall gearing (times)	1.04	1.19	NA
Interest coverage (times)	2.55	1.27	NA

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	193.50	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	December 2025	40.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	245.50	CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	30.00	CARE A2+
Fund-based - LT-Cash Credit		-	-	-	140.50	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	April 2026	122.36	CARE A-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	50.50	CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	290.00	CARE A2+
Non-fund-based - ST-Forward Contract		-	-	-	0.50	CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	54.50	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	193.50	CARE A-; Stable	1)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)	1)CARE A; Positive (13-Feb-19) 2)CARE A; Positive (31-Dec-18)
2	Fund-based - LT-Term Loan	LT	40.00	CARE A-; Stable	1)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)	1)CARE A; Positive (13-Feb-19) 2)CARE A; Positive (31-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	245.50	CARE A2+	1)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)	1)CARE A1 (13-Feb-19) 2)CARE A1 (31-Dec-18)
4	Non-fund-based - ST-BG/LC	ST	30.00	CARE A2+	1)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)	1)CARE A1 (13-Feb-19) 2)CARE A1 (31-Dec-18)
5	Fund-based - LT-Cash Credit	LT	140.50	CARE A-; Stable	1)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)	-

6	Fund-based - LT-Term Loan	LT	122.36	CARE A-; Stable	1)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)	-
7	Non-fund-based - ST-Letter of credit	ST	50.50	CARE A2+	1)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)	-
8	Non-fund-based - ST-BG/LC	ST	290.00	CARE A2+	1)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A; Stable / CARE A1 (21-Aug-19)	-
9	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A2+	1)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)	-
10	Non-fund-based - ST-BG/LC	ST	54.50	CARE A2+	1)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A; Stable / CARE A1 (21-Aug-19)	-
11	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	1)Withdrawn (05-Apr-21)	1)CARE A1 (06-Apr-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Forward Contract	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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